COTTON USA Sourcing Program
July 8, 2020

Update on Latin American and Asian COVID-19 Impact on Textile and Apparel Industry

As COVID continues its grip on the world and textile and apparel industries this summer, factories are opening – mainly making COVID related PPE/masks but production is beginning on previously held orders and new orders. Below is an update from the June 4 report on the status in Latin America as well as updates from throughout Asia.

WESTERN HEMISPHERE:

Mexico: Like its northern neighbor, the United States, Mexico COVID cases continue to grow. Mexico City announced the re-opening of shopping centers, hotels and restaurants at 30% capacity on July 6 and at least 12 of 32 states have started opening up for limited activities. All airports in the country are open with domestic and some US and Canadian airlines operating flights. Cancun received 12,000 tourists in the first week of July.

The USMCA officially began July 1 bringing a slight hope for the Mexican industrial sector to reactivate operations. Thus far, the Mexican textile industry has not received any financial support from their government. Garment companies with the ability to produce PPE are in a better situation. Most companies are still working at partial capacity with growing fears of U.S. customer solvency as bankruptcies of US brands/retailers continue during the COVID crisis. Several Mexican department stores have announced to their suppliers that, at the moment, they will not generate more purchase orders, until they sell at least 30% to 40% of current inventory.

Guatemala: The Guatemalan Government imposed a new curfew until July 13t to stop the spread of COVID-19. Restaurants, hotels and the airport are closed. There are limits on personal vehicular traffic in greater Guatemala City but commercial movement of merchandise have been unaffected. Due to lack of business, about 10% of Guatemala apparel companies have closed and employment in the sector is down 20%. However, textile and garment companies are receiving new orders or working on orders previously suspended orders. Vestex, the Guatemalan Textile and Garment Association, has developed specific health and safety protocols that follow government regulatory requirements accompanied by compliance audit teams.

Honduras: Honduras has reopened partially from earlier COVID closures with the national curfew in place until July 12. Personal movement for shopping, banks, gas stations is regulated by national identity card with restaurants only open for delivery. The international airports will begin local flights by August. Most textile and apparel companies are working with a reduced workforce following government biosecurity protocols. Honduras has become a producer/exporter of face masks, medical gowns and medical uniforms for the United States, Canada, and other countries as well as their traditional production of knitted apparel.

El Salvador: The second phase of this economic re-opening is now scheduled for July 21 with airport reopening planned for August 18. Textile and garment companies are open following biosafety protocols, including hiring more doctors to work at the plants and increasing the number of shifts to divide their personnel. The industry has been hard hit with an estimated 20,000 job losses and 42% decrease in exports but companies are now running despite any financial support from the El Salvador government as they are seeing the reactivation of orders and inquiries from current and potential clients.

Nicaragua: While the Ortega government has not recognize the severity of the pandemic nor shut down any parts of the country, the textile/apparel industry management have taken their own measures to protect employee health. Most companies have been operating producing masks/PPE along with their normal orders. Companies are working with 50-60% of the workforce capacity as another 10,000 people came back to work in June. Around 5,000 garment industry workers are still unemployed

Dominican Republic: Luis Rodolfo Abinader was elected President on July 5 with 53% of the vote. Mr. Abinader is a businessman who has never held elected office ending a 16-year hold on the presidency by a center-left party in the Dominican Republic. The Dominican government lifted the State of Emergency on July 1 allowing resumption of commercial aviation for their important tourism industry. The export of medical gowns and face masks increased 4% over a year earlier – overall exports remained stable with most companies operating.

Haiti: Haitian President Jovenel Moise announced the gradual reactivation of the country's economy and the reopening of land and air borders starting on June 30. Curfew remains from 12:00 a.m. to 4:00 a.m. The factories are now working with most of their employees with orders increasing, and the industry expects to normalize production by August.

Peru: The Peruvian government lifted most COVID-19 lockdown restrictions on July 1 although borders remain closed with curfews in place from 11pm-4am. The textile industry is open working at about 55% capacity making PPE and as well as fashion apparel for a few new orders from the U.S. Cencosud, the Chilean retail group announced that its eleven "Paris" retail stores will be permanently closed in Peru.

Colombia: The quarantine has been extended to August 1 with land borders closed, and ports and airports open only for cargo and humanitarian missions. Commercial flights are cancelled until at least August 31 or until further notice. Shopping centers were allowed to partial opening June 1, and 78% are now open for partial operation. The Colombian textile/apparel industry is working in limited shifts producing mainly PPE, basics, loungewear, and fashion garments that meet biosecurity guidelines to use when outdoors or going back to the office. Mills and manufacturers are working with retailer to understand inventory levels estimating new product lines may go into production in September or October. The Colombian textile industry has received some support from banks mainly in the form of restructuring bank loans or getting credit to be able to payroll. Large inventory levels from raw material purchased during Q1 remains a big challenge

Chile: The government's State of Emergency has been extended to September 13 along with the 10 pm-5 am curfew. Quarantine continues and land borders remain closed for general visitors with only humanitarians flights allows. Unemployment is 11.2% which is the highest in the last 10 years. Building, restaurants and hotels are the most affected segments. Shopping centers in secondary cities around Chile have reopened with limited operations. Shopping centers in Santiago remain closed.

Brazil: With COVID cases rising, including President Bolsonaro, Brazil continues to battle the coronavirus. In mid- June, retail shops in Brazil's largest city, Sao Paulo, reopened leading to crowded buses and subways with limited safe distancing rules. Some companies are producing PPE, but that there is a lot of learning required to produce quality products. Textile production has dropped 30% to date with some companies closing; others laying off or reducing employee salaries while some have gone bankrupt.

ASIA:

Turkey: June 1 marked the beginning of the "new normal" with the resumption of international/domestic flights as well as ports and borders –restaurants, shopping malls, sport activities have started with the Turkish tourism industry open (Turkish custom authorities administer COVID test upon arrival and if negative, entry allowed) However the EU have not allowed travel to Turkey yet. With demand returning from both domestic and EU export, the Turkish spinning industry has returned to 75% capacity supplying local knitters who are now at nearly 100% capacity. The situation for the Turkish weaving industry remains difficult, primarily because of the stagnant denim industry and working at only 50% capacity. The home furnishing industry are doing well and working almost with 100% capacity. The apparel sector are getting new orders for the winter.

China: Recent COVID resurgence in Beijing prompted localized government lockdowns/mass testing with outbreaks have largely contained. Domestic travel has gradually opened up in lower-risk cities/areas, and companies are starting to make autumn events plans. Foreigners are still banned from traveling to China (some diplomats and business people living in China pre-COVID have been granted special permission to return). In spite of growing tensions, diplomatic communications between the U.S. and China were maintained with the June 17 Hawaii meeting regarding implementation of the Phase One Agreement. The U.S. Transportation Department agreed to allow four weekly flights between the U.S. and China (two each for US/China carriers), and the U.S. Commerce Department advised that U.S. companies can work with Huawei on 5G standards.

In the Chinese spinning sector, yarn sales are slow midst an overall lack of orders and high inventories causing further reductions in production, although domestic lower count yarn sales are stable. Overseas markets orders have not seen improvement, and Chinese port warehouses are holding 150,000 MT cotton yarn inventory. China's cotton textile market is suffering from oversupply with recovery worse than expected and mills are running around 70% capacity. From January to May 2020, production decreased in yarn (-18%), fabric (-28%) and garment (-11%). Orders of PPE fabrics and orders returning from Southeast Asia supported China's fabric production for a while although demand for protective fabrics and masks dwindled.

The National Cotton Reserve auction resumed July 1 with 100% of daily quota (8,000 T) sold in the first three days for lower quality cotton aimed at the domestic textiles trade/retail. With lower MMF prices and uncertainty of US-China relations, the demand for imported high quality cotton is currently weak. The fragile US-China relationship has looming uncertainty. Many issues prevail going into the second half of 2020, with recent U.S. "Xinjiang Supply Chain Business Advisory" causing questions to surface for proof from brands/retailers of their Chinese suppliers regarding origin cotton or garments manufactured with Xinjiang labor.

Hong Kong: With very few COVID cases, Hong Kong has relaxed restrictions for local movement/gatherings, however, the no-entry restriction for non-Hong Kong resident from overseas remains in force with all non-Hong Kong residents coming from Mainland China, Macao and Taiwan subject to a 14-day quarantine. New worries now dominate as Hong Kong has been plunged into uncertainty over US-China relations and the new June 30 national security law. If Hong Kong is no longer treated as separate customs territory, apparel items, exported from Hong Kong to the US, will no longer enjoy duty-free treatment; US Section 301 punitive tariffs imposed on exports from China will also apply to Hong Kong products; as well as new requirements for country of origin labelling on goods made in Hong Kong.

Most of the sourcing offices have resumed their normal operations since mid of May although some have given staff 1-2 days of non-paid leave per week. While some local mills have transitioned their production into PPE, US and European brands/retailers are starting to place S/S 2021 orders, albeit in small volume. Caution prevails with new orders in terms of volume and payment terms given uncertain global pandemic/economic outlook. Local retail sales decreased by 34% in May compared to the year before but are showing a sign of recovering when compared to earlier this year. GAP will close five out of its eight stores in Hong Kong and Victoria Secret closed its flagship store in Causeway Bay. Jeanologia opened their innovation hub in Hong Kong in June.

Taiwan: Learning from the 2003 SARS outbreak, Taiwan reacted early to the COVID news with early travel bans on visitors from China/Hong Kong/Macau, testing, contact tracing, and quickly leveraged domestic manufacturing for mask production (known as "Taiwan's Mask Miracle"), as production went to 8 million masks daily for its 23 million population and now is the world's 2nd largest face mask exporter). Despite its proximity to China, Taiwan's economy remained open and case levels low. Airports are open with foreign visitors requested to observe a 14-day quarantine. The Taiwanese local economy is improving for retail, restaurants, and hotels and the stock market broke a new high as the NT rose against the US dollar. Taiwan is the headquarters for large textile and apparel manufacturers who control overseas manufacturing plants around the world. The apparel companies have seen an increase in new orders by 15-20% in May from US/EU/Japanese activewear brands and are optimistic they will reach pre-COVID operations/orders. Several textile mills that kept Taiwanese spinning mills are restructuring their home operations and considering moving their remaining equipment to Southeast Asia. However, future business confidence remains low and uncertainty prevails.

Japan: Japan resumed economic activity in June with pre-COVID routines resuming – while international airports are open, many flights are still cancelled as travel restrictions remain for 111 countries (including the U.S). Domestic flights are almost back as before. Officials are closely monitoring new "COVID waves", particularly in Tokyo. June retail sales were strong (particularly in suburban stores and outlet stores) as physical stores re-opened with some retailers experiencing summer product shortages as items sold out during sales with no stocks creating urgent orders for fast delivery. Retailers, who missed summer sales, are placing Fall/Winter orders but in smaller quantities because of continued COVID uncertainty. There is optimism for the next Spring/Summer season. Mills supplying the Japanese domestic market are now relatively optimistic, however export oriented, such as world renowned Japanese denim fabric (known as "Japan Blue") are only operating at 60-70% because of reduced European and American sales.

Korea: Korea remains open including the airport with mandatory COVID testing and 14 day quarantine for all visitors regardless of nationality. Most local brands and retailers are expecting 30-40% decrease of annual sales. The Korean textile industry is operating at 70% in Korea and running full in Vietnam. In the domestic market, imported yarns and fabrics from China and India are entering at very low prices. One casualty of COVID has been the closing one of Korean's oldest and largest mills, Choongnam Spinning – who had relocated to Vietnam in 2000. The large Korean based apparel companies that supply US big box retailers such as Walmart are getting new orders – others are operating at limited capacity and are exploring the PPE/mask market to keep manufacturing plants running.

Vietnam: With no domestic confirmed cases since late April, the Vietnamese economy is fully opened with domestic transportation including air travel restored. Borders remain closed to foreigners ((sea/land/air) with no international flights operating until at least the end of July. The situation for the textile/apparel industry remains very tough as well as in the sister industry of footwear (one of the largest companies Taiwanese shoe giant Pou Chen cut its workforce by 6,000). Local garment sales are improving, but the export dependent textile industry predicts a $32 billion decline for 2020. The majority of Vietnamese owned spinning mills are at 50-70% capacity with low sales and yarn prices dropped 5% further over the last 2 weeks while cotton fiber prices have risen. Foreign Direct Investment mills are running at about 90% because of orders from their home countries. Some mills have closed parts of factories for maintenance and lower the yarn output/inventories. The garment manufacturing sector reports a sudden drop in demand for PPE and masks, however U.S./EU/Japanese retail/brand buyers are coming back with previous orders placed on hold now proceeding. New orders (primarily in casual product categories) are beginning at about 1/3 to ½ of previous levels and at discounted prices (10-15% lower).

India: India has begun to re-open its economy following 3 months of lockdown as offices, shops, and malls begin to re-open in non-containment zone areas as part of India's UNLOCK 2.0 guidelines. Containment zones change daily depending on concentration of COVID cases as 10 major cities account for more than half of India's COVID outbreak or about 6% of India's population. International air travel is still prohibited until July 31. To provide employment to the 10 million migrant workers that returned to home villages during COVID closures, the Indian government has offered various economic assistance of around US$280 billion and a policy of "Self Reliant India" to boost manufacturing by tariffs and customs inspections of cheap Chinese imports.

Textiles mills are still having labor shortage with those in Western and Southern India facing more of a problem than Northern India. Indian textile and apparel companies continue to run at reduced capacities – yarn manufacturing at 50% with fabric and garments less. Mills in Maharashtra only allow 10% of the workforce to return because of COVID containment zone limitations. Reduced export yarn sales (China -51%; Bangladesh -23%), low prices (-15-20%) and cash flow challenges are constant problems. Domestic fashion brands are trying to move unsold spring/summer inventory with newly opened foot traffic in shopping malls at only 25-30% of pre-COVID levels. The government has lifted its ban on some PPE garment exports. The home textiles and innerwear segments are getting faster traction as enquiries have started flowing in from Western retailers. Production and shipment have started for pipeline orders (existing contracts) which were earlier on hold. Domestic cotton fiber prices have dropped to promote sales as 1/3 of the 2019 crop was procured by Cotton Corporation of India, but current high Indian mill stock levels have limited new sales even at reduced prices.

Bangladesh: Restrictions in public movement, offices and public transport have been extended to August 3, although shops are open from 10am-7pm. A few international flights have resumed operations, and border trade by land with India has resumed. Cheap Indian yarn continues to cause problems for the Bangladesh spinning industry – the majority of the mills are running at 60-70% capacity with a few 85-90%. Small quantities of woven fabric are being imported while most knit fabrics made in Bangladesh. Textile and garment industry are receiving small orders for the upcoming winter/spring season with some European buyers placing new orders. PPE production has kept some mills open as well. Around 90% of garment factories are operating with limited capacity producing basic items as currently there is no enquiries for higher end products. Brand/retailer order cancellation at the COVID onset have been well publicized by the Bangladesh industry in the international press. The EU has committed to provide 500 million euros to support Bangladesh garment workers, and after extensive negotiations, some international buyers have agreed to continue with their pre-COVID orders. Remaining outstanding cancelations are estimated at $5 billion

Pakistan: The Pakistani textile and apparel industry is open under government regulations of one shift Monday-Friday, closed Saturday/Sunday (vs 2-3 shifts, 7 days a week pre-COVID. The Pakistan Readymade Garments Manufacturers & Exporters Association (PRGMEA) has urged the government to exempt the export-oriented units in Punjab from lockdown restrictions on Saturdays as well as allow 2 shifts in order to complete orders. While yarn exports remain slow, garment factories are getting new orders from the US and EU for regular apparel as well as PPE orders. The State Bank of Pakistan lowered interest rates to 7% in hopes to support textile/apparel exports, and the Pakistani government has agreed to release an additional grant of Rs6.2 billion (US$37 million) in addition to its previous support of Rs47 billion (US$285 million) announced in May.

Indonesia: President Jokowi has allowed offices to open across the country, and companies are cautiously opening between 10-50% capacity depending on the individual company decision. Some limited international flights have begun under the 14-day quarantine requirement for foreign visitors plus medical documents verifying good health, however the important tourism industry remains at a standstill. Domestic air travel between major cities as well as trains, buses and other means of public transportation are operating. 2020 GDP growth is estimated at 0 to -2%. Textile and apparel manufacturers continue to operate at 10-50% as workers slowly return. Domestic and export demand for yarns, fabrics, and garments remain weak although inquiries from EU and Japan have begun. Many textile mills in Jakarta, Bandung, and Solo have defaulted on their financial loans to the banks.

Thailand: Thailand has been COVID free for over forty day with all international travel requiring 14 days mandatory state quarantine – any new cases are from visitors. The Thai Textile Manufacturers Association (TTMA) is working on behalf of the industry to allow mills to remain open while still providing unemployment assistance to workers (currently expires July 31) as well as waive the 15% electricity demand charge until the end of 2020. Local brands/retailers report sales have picked up but not as strong as the same period last year. Spinning mills are running at most 50% capacity as they work down existing yarns stocks with fabric mills and garment manufacturers are running at higher capacities as Q3 orders have picked up from U.S. and Japanese – mainly mass retailers/childrenswear. Orders from higher fashion brands/retailers are low to none with no forecasts received for the Q4 holiday season.

Myanmar: Myanmar garment factories will complete previous orders by end of July/early August with no new orders from EU/US buyers for September onwards - especially for the fashion category. Since COVID, over 50% of the garment manufacturers have been affected. The Myanmar Garment Manufacturers Association is discussing with the government for long term assistance programs as the earlier EU financial assistance was only for three months. The Labor Ministry reported that at least 80,000 workers in the garment and footwear industries were jobless and over 100 factories have suspended operations.